

International Agricultural Trade Report

Weekly Market Report: Dairy, Livestock, & Poultry

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Mexico Announces Final Antidumping Duties on Imports of U.S. Beef

Summary

On April 28, Mexico's Secretariat of Commerce and Industrial Development (SECOFI) issued a final decision in the antidumping case against U.S. beef and edible beef offals. The new duty structure, which went into effect on April 29, assigns specific duties on a per kilogram basis and replaces the preliminary ad valorem duty structure imposed on August 2, 1999. The final ruling imposes a complex set of duties on most beef carcasses, bone-in, and boneless beef cuts by producer or exporter, ranging from \$0.07 to \$0.80 per kilogram.

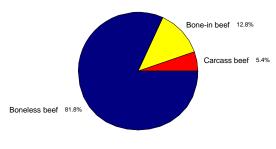
The duties on edible beef offals such as tongues and livers will return to the level that was in effect prior to the preliminary duty structure. U.S. Certified Angus beef and USDA Prime beef cuts are exempted from compensatory duties in the new structure. Veal and kosher beef are exempt from duties for certain named companies. Of concern is the requirement that to receive a "preferential duty", exports must grade USDA Choice or Select and be exported within 30 days of production. Ungraded beef as well as beef which is more than 30 days old will be assessed the highest duty applied to the "all other" exporter category.

U.S. Beef Exports to Mexico Growing Rapidly

Trade liberalization under the NAFTA agreement and economic recovery in Mexico since the 1994 peso devaluation have led to a strong expansion of U.S. beef exports to Mexico in recent years. Mexico is the United States' second most important market for beef and beef variety meats. Despite the imposition of preliminary antidumping duties on U.S. beef in August last year, beef exports to Mexico grew a healthy 11 percent in 1999, reaching 158,000 tons valued at \$454 million. The sharp growth in exports has been continuing so far in 2000, rising 29 percent in the first two months of 2000 over a year ago.

The continuing strength in U.S. beef exports despite the preliminary duty structure is related to the continuing robust demand for beef in Mexico reflecting healthy economic growth and the inability of the Mexican beef industry to supply the market with sufficient quantities of high quality beef of consistent quality. While Mexican per capita consumption of beef is not rising, the population continues to rise such that total consumption continues to expand at a healthy pace. The prolonged drought in Northern Mexico over the last several years, combined with Mexican cattlemen facing low profitability, overdue loans, and tight credit have led to a continuing liquidation of the cattle herd, resulting in tighter domestic beef supplies.

Boneless Beef Dominates Beef Exports to Mexico



Source: 1999 U.S. Census trade data

Final Compensatory Duties on U.S. Beef: Concerns and Potential Trade Impact

The final compensatory duty structure appears to provide a more level playing field between large and small exporters. The new classification lowers the duties on the three beef categories (boneless, bone-in, and carcass) for most producers and exporters.

According to press reports, SECOFI established three duty categories by company. In the first category, specific duties or exemptions were established for beef originating from eight U.S. exporters that

cooperated in the investigation. These companies include Excel, IBP Inc., Sunland, ConAgra, Farmland, Sam Kane, Northern Beef, and Almacenes de Tejas. The second category contains exporters that cooperated but for whom time did not permit the calculation of specific dumping margins; these companies were assessed duties at the weighted-average of the first group. Companies in the second group include Agri-West, CKE Restaurants, H&H, Murco, and Packerland. Finally, products coming from all other companies are assessed the highest duty of the first category. These companies include PM Beef, Ruprecht, Simplot, and all others.

The final duty structure imposes a 30-day limit from the time of production to export which raises a number of questions regarding how this might be enforced by Mexican Customs officials. The question of whether this is WTO legal within the context of national treatment also arises. There doesn't seem to be a science-based health or sanitary foundation to this rule. There are also still questions regarding the treatment of an exporter that fully complied with SECOFI in the investigation and was assessed virtually no duties (e.g., Northern Beef), but who is not in the business of producing beef.

The structure appears to favor those beef products which do not directly compete with Mexican beef and for which there is a very strong demand in Mexico. Thus, USDA Prime beef and Certified Angus Beef were made exempt. Boneless beef cuts are now assessed a lower duty than bone-in cuts, while the reverse was true under the preliminary duty structure. Ungraded beef cuts, which represent a substantial amount of U.S. beef exports to Mexico and which have little market value in the United States, compete directly with Mexican beef and were assessed the highest duties in all three beef categories. These duties are deemed prohibitive by the U.S. Meat Export Federation. Currently, ungraded beef exports are important for small traders along the U.S.-Mexico border. Ungraded beef is generally one of three types: (1) cow beef which has no marbling, (2) dark cutter beef, characterized by a dark carcass reflecting stress at the time of slaughter, and (3) lean beef, produced mainly in Texas, New Mexico, and Arizona, from animals which due to their genetics do not produce marbled beef.

The Bottom Line

The impact on trade at this point ranges from minor to quite significant depending on the interpretations made about the final antidumping ruling. The 30-day requirement is of immediate concern. The USDA is working to clarify how this requirement might be satisfied with the least possible burden on U.S. exporters. It is possible that U.S. suppliers will not be able to make up lost no-roll beef exports with Choice or Select grade beef due to tightening supplies of these grades in the second half of the year and continuing strong domestic demand. Strengthening prices of U.S. beef will also limit export growth in the near term. Ungraded U.S. beef will increasingly compete in our domestic market with imported manufacturing grade beef as prices for utility cows have risen sharply in 2000 and are expected to continue rising.

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